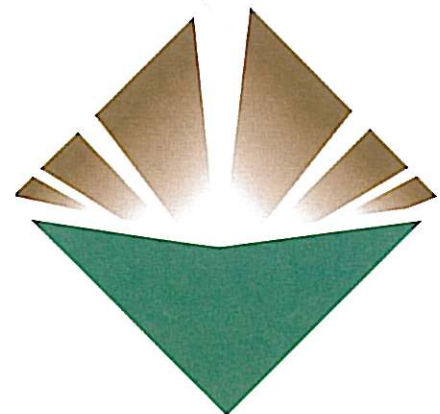




Allen Water District
Basic Financial Statements

December 31, 2007 and 2006



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Mary Taylor, CPA
Auditor of State

Board of Trustees
Allen Water District
PO Box 724
Lima, Ohio 45802-0724

We have reviewed the *Independent Auditor's Report* of the Allen Water District, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Allen Water District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 22, 2008

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 30, 2008

Board of Trustees
Allen Water District
2500 Shawnee Rd., Ste. C
Lima, Ohio 45806

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activity of the Allen Water District, Allen County, Ohio, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Allen Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Allen Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the Allen Water District as December 31, 2007 and 2006, and the changes in its financial positions and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008 on our consideration of the Allen Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

This discussion and analysis, along with the accompanying financial reports, of Allen Water District (AWD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of AWD exceeded liabilities on December 31, 2007 by \$11,648,565 and on December 31, 2006 by \$11,416,269. The District's net assets increased by \$232,296 (2%) in 2007 and decreased by \$49,482 (0.4%) in 2006.

The District's operating revenues increased by \$58,150 (11.2%) in 2007 and \$31,178 (6.4%) in 2006. Operating expenses increased by \$28,161 (4.3%) in 2007 and \$56,441 (9.4%) in 2006.

The District issued an additional \$140,238 and \$373,922 of long term debt in 2007 and 2006, respectively.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, special assessments and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, noncapital financing and capital financing activities.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements of Net Assets of the District. Capital assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", represents capital assets less outstanding debt that was used to acquire those assets.

(Table 1)
Net Assets

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>2005</u>	<u>Difference</u>
Current and Other Assets	\$ 7,820,976	\$ 7,682,529	\$ 138,447	\$ 7,809,048	\$(126,519)
Capital Assets	12,890,808	13,087,595	(196,787)	12,850,912	236,683
Total Assets	<u>20,711,784</u>	<u>20,770,124</u>	<u>(58,340)</u>	<u>20,659,960</u>	<u>110,164</u>
Long Term Liabilities	8,399,580	8,596,203	(196,623)	8,557,141	39,062
Current and Other Liabilities	663,639	757,652	(94,013)	637,068	120,584
Total Liabilities	<u>9,063,219</u>	<u>9,353,855</u>	<u>(290,636)</u>	<u>9,194,209</u>	<u>159,646</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,573,240	4,564,032	9,208	4,357,850	206,182
Unrestricted	<u>7,075,325</u>	<u>6,852,238</u>	<u>223,087</u>	<u>7,107,901</u>	<u>(255,663)</u>
Total Net Assets	<u><u>\$ 11,648,565</u></u>	<u><u>\$ 11,416,270</u></u>	<u><u>\$ 232,295</u></u>	<u><u>\$ 11,465,751</u></u>	<u><u>\$ (49,481)</u></u>

The District's net assets increased by \$232,296 (2%) in 2007 and decreased by \$49,482 (0.4%) in 2006. The increase in 2007 is primarily the result of an increase in capital contributions. The decrease in 2006 is primarily the result of a decrease in capital contributions.

Unrestricted net assets increased \$263,078 from 2006 to 2007 and decreased by \$295,654 from 2005 to 2006. Unrestricted assets may be used without constraints established by other legal requirements. Cash and cash equivalents increased by \$160,099 from 2006 to 2007 primarily due to prepaid special assessments related to the Bluelick/Thayer and Berryhill projects and decreased by \$31,549 from 2005 to 2006 primarily due to operating activities.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

STATEMENTS OF CHANGES IN NET ASSETS

Table 2 below summarizes the changes in revenues and expenses and the resulting changes in net assets.

(Table 2)
Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>2005</u>	<u>Difference</u>
Operating Revenues	\$ 579,646	\$ 521,496	\$ 58,150	\$ 490,318	\$ 31,178
Operating Expenses (Excluding Depreciation)	370,906	348,912	21,994	306,135	42,777
Depreciation	313,090	306,923	6,167	293,259	13,664
Total Operating Expenses	<u>683,996</u>	<u>655,835</u>	<u>28,161</u>	<u>599,394</u>	<u>56,441</u>
Operating Loss	(104,350)	(134,339)	29,989	(109,076)	(25,263)
Non-Operating Revenues	511,815	562,745	(50,930)	647,705	(84,960)
Non-Operating Expenses	(711,594)	(537,679)	(173,915)	(584,863)	47,184
Capital Contributions	536,425	59,791	476,634	1,130,702	(1,070,911)
Changes in Net Assets	<u>232,296</u>	<u>(49,482)</u>	<u>281,778</u>	<u>1,084,468</u>	<u>(1,133,950)</u>
Net Assets at Beginning of Year	<u>11,416,269</u>	<u>11,465,751</u>	<u>(49,482)</u>	<u>10,381,283</u>	<u>1,084,468</u>
Net Assets at End of Year	<u>\$ 11,648,565</u>	<u>\$ 11,416,269</u>	<u>\$ 232,296</u>	<u>\$ 11,465,751</u>	<u>\$ (49,482)</u>

Operating revenues increased \$58,150 from 2006 to 2007 due to an increased number of customers. Operating expenses, exclusive of depreciation, increased \$21,994 primarily due to increases in the contract fee expense which increases with additional contract fee revenue. Depreciation increased by \$6,167 from 2006 to 2007 due to additional capital assets being put into service and being depreciated. Capital contributions increased by \$476,634 from 2006 to 2007 primarily due to an increase in special assessment projects in 2007.

Operating revenues increased \$31,178 from 2005 to 2006 due to an increased number of customers. Operating expenses, exclusive of depreciation, increased \$42,777 primarily due to increases in the contract fee expense which increases with additional contract fee revenue and due to audit costs of \$11,206 which were incurred in 2006 as the audit occurs every two years. Depreciation increased by \$13,664 from 2005 to 2006 due to additional capital assets being put into service and being depreciated. Capital contributions decreased by (\$1,070,911) from 2005 to 2006 primarily due to fewer special assessment projects in 2006, fewer donated lines in 2006, and no governmental contributions in 2006.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

CAPITAL ASSETS

The District had \$15,972,380 invested in capital assets (before depreciation) at the end of 2007. This amount is an increase of \$116,303 (0.7%) from the previous year. This increase is partially due to additional developer donated lines of \$86,762 in 2007 compared to \$59,415 in 2006. The rest of the increase is due to the construction of the Bluelick/Thayer project and the Berryhill project, which amounted to \$13,108 and \$16,433 respectively in 2007. The District had \$12,890,808 invested in net capital assets (after depreciation) at the end of 2007. This amount is a decrease of \$196,788 (1.5%) from the previous year. The reason that net capital assets decreased is due to depreciation expense in the amount of \$313,090 during 2007.

The District had \$15,856,077 invested in capital assets (before depreciation) at the end of 2006. This amount is an increase of \$543,606 (3.6%) from the previous year. This increase is partially due to additional developer donated lines of \$59,415 in 2006 compared to \$774,105 in 2005. The rest of the increase is due to the construction of the Bluelick/Thayer project and the Berryhill project and the purchase of office furniture and equipment which amounted to \$293,557, \$189,021 and \$1,613 respectively in 2006. The District had \$13,087,596 invested in net capital assets (after depreciation) at the end of 2006. This amount is an increase of \$236,684 (1.8%) from the previous year. The reason that net capital assets did not increase as much is due to depreciation expense in the amount of \$306,923 during 2006.

(Table 3)
Capital Assets at December 31

	2007	2006	2005
Land Easements	\$ 7,186	\$ 7,186	\$ 7,186
Construction in Process	0	482,578	0
Water Lines	15,941,967	15,343,086	15,283,671
Office Furniture & Equipment	23,227	23,227	21,614
Totals Before Accumulated Depreciation	15,972,380	15,856,077	15,312,471
Accumulated Depreciation	(3,081,572)	(2,768,482)	(2,461,559)
Net Capital Assets	\$12,890,808	\$13,087,595	\$12,850,912

Additional information regarding capital assets can be found in Note H to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

DEBT

The District issues long term debt to finance much of its construction. The District typically levies special assessments on the benefiting property owners and then obtains Ohio Water Development Authority Loans (OWDA) to finance these water line projects. The special assessment collections are generally received over a twenty five year period and such collections are used to pay the debt service on the OWDA Loans. Additional information regarding debt can be found in Note I to the basic financial statements.

**(Table 4)
Outstanding Debt, at December 31**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
OWDA Loans	\$ 8,042,610	\$ 8,248,606	\$ 8,217,727
Rotary Commission Loans	274,958	274,958	275,335
Total Long Term Debt	8,317,568	8,523,564	8,493,062
Less			
Current Maturities	368,758	334,107	343,043
Net Total Long Term Debt	<u><u>\$ 7,948,810</u></u>	<u><u>\$ 8,189,457</u></u>	<u><u>\$ 8,150,019</u></u>

CASH

Cash and investments on December 31, 2007 were \$1,358,568 and on December 31, 2006 were \$1,198,469.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Glenn Hasting, Treasurer, Allen Water District, P.O. Box 724, Lima, Ohio 45802-0724 or (419) 224-0724.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2007 AND 2006**

ASSETS

	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,358,568	\$ 1,198,469
Accounts receivable	39,453	38,304
Intergovernmental receivable	4,540	4,806
Prepaid insurance	1,841	1,714
Total current assets	1,404,402	1,243,293
 NONCURRENT ASSETS:		
Capital Assets:		
Land easements	7,186	7,186
Construction in process	0	482,578
Water lines	15,941,967	15,343,086
Office furniture and equipment	23,227	23,227
	15,972,380	15,856,077
Less: Accumulated depreciation	(3,081,572)	(2,768,482)
Net capital assets	12,890,808	13,087,595
 Other Assets:		
Assessments receivable	6,346,652	6,284,863
Planning costs	69,922	154,373
Total other assets	6,416,574	6,439,236
 TOTAL ASSETS	 \$ 20,711,784	 \$ 20,770,124

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 41,543	\$ 159,086
Accrued interest	249,390	258,161
Vacation accrual	489	830
Payroll taxes accrued and withheld	3,459	5,468
Notes payable - current portion	368,758	334,107
Total current liabilities	<u>663,639</u>	<u>757,652</u>
LONG-TERM LIABILITIES:		
Deferred revenues	450,770	406,746
Notes payable	7,948,810	8,189,457
Total long-term liabilities	<u>8,399,580</u>	<u>8,596,203</u>
TOTAL LIABILITIES	<u>9,063,219</u>	<u>9,353,855</u>
NET ASSETS:		
Invested in capital assets, net of related debt	4,573,240	4,564,031
Unrestricted	<u>7,075,325</u>	<u>6,852,238</u>
TOTAL NET ASSETS	<u>\$ 11,648,565</u>	<u>\$ 11,416,269</u>

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
OPERATING REVENUES:		
District fees	\$ 349,440	\$ 333,215
Contract fees revenue	230,206	188,281
	579,646	521,496
 OPERATING EXPENSES:		
Office wages	24,733	24,881
Casual labor	100	0
Contract fees expense	230,206	188,281
Trustee fees	21,900	19,800
Payroll taxes and workers compensation	1,645	1,229
PERS expense	6,506	6,050
Engineering fees	21,804	25,253
Legal fees	25,005	27,760
Accounting fees	9,694	10,027
Audit fees	0	11,206
Insurance	4,294	4,037
Telephone/data communications	3,337	3,234
Office supplies	856	1,122
Equipment maintenance	190	75
Office rent	11,400	9,650
Office maintenance	702	928
Public relations	500	150
Postage	198	663
Easement rent	2,466	505
Utilities	1,061	1,372
Depreciation	313,090	306,923
Transportation	4,309	4,655
District maps	0	6,844
Other	0	1,190
	683,996	655,835
Operating loss	\$ (104,350)	\$ (134,339)

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
Operating loss	\$ (104,350)	\$ (134,339)
NONOPERATING REVENUES (EXPENSES):		
Tap fees	27,584	37,918
Tap fee recoupment	0	(4,000)
Intergovernmental	9,346	9,860
Interest income	409,535	415,142
Capital permit fees	56,700	80,500
Plan and review/inspection revenue	4,880	12,171
Plan and review/inspection expenses	(5,312)	(12,692)
CIP revenues	2,325	4,462
Meter fees	1,445	2,545
Non-capitalized planning expenses	(199,722)	0
Interest expense	(506,560)	(520,987)
Miscellaneous revenue	0	147
Net nonoperating revenues (expenses)	(199,779)	25,066
Changes in net assets before capital contributions	(304,129)	(109,273)
Capital contributions - donated lines	86,762	59,415
Capital contributions - intergovernmental	24,000	0
Capital contributions - special assessments	425,663	376
Total Capital Contributions	536,425	59,791
Changes in net assets	232,296	(49,482)
Net assets, beginning of year	11,416,269	11,465,751
Net assets, end of year	\$ 11,648,565	\$ 11,416,269

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 349,391	\$ 335,254
Cash received from contract fee revenues	228,459	187,640
Cash payments to suppliers for goods and services	(334,161)	(305,183)
Cash payments for employee services and benefits	(57,234)	(53,772)
Net cash provided by operating activities	<u>186,455</u>	<u>163,939</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other income	<u>0</u>	<u>147</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Tap fees	27,584	37,918
Tap fee recumbent	0	(4,000)
Plan and review/inspection revenue	4,880	12,171
Plan and review/inspection expenses	(5,312)	(12,692)
Capital permit fees	56,700	80,500
CIP revenues	2,325	4,249
Meter fees	1,445	2,405
Intergovernmental	9,346	10,108
OWDA principal payments	(346,234)	(343,043)
OWDA interest payments	(515,331)	(527,221)
Rotary Loan principal payment	0	(377)
Intergovernmental Contributions on projects	24,000	0
Special assessments collections	412,361	238,280
Special assessment interest income	369,013	374,323
Proceeds from OWDA Loans	140,238	373,922
Purchase of capital assets	(247,893)	(482,997)
Net cash provided (used) by capital and related financing activities	<u>(66,878)</u>	<u>(236,454)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	<u>40,522</u>	<u>40,819</u>
Net increase (decrease) in cash and cash equivalents	160,099	(31,549)
Cash and cash equivalents at beginning of year	<u>1,198,469</u>	<u>1,230,018</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,358,568</u></u>	<u><u>\$ 1,198,469</u></u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (104,350)	\$ (134,339)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	313,090	306,923
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable (operating)	(1,796)	1,398
(Increase) decrease in prepaid insurance	(127)	171
Increase (decrease) in accounts payable (operating)	(18,012)	(12,026)
Increase (decrease) in accrued wages and benefits	(2,350)	1,812
Total adjustments	290,805	298,278
Net cash provided by operating activities	\$ 186,455	\$ 163,939

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE A – NATURE OF ORGANIZATION

The Allen Water District, hereafter referred to as AWD, was created by the Court of Common Pleas of Allen County in accordance with the provisions of Section 6119.01 to provide water services to the residents of Bath, American, Perry, and Shawnee Townships. A seven (7) member appointed Board of Trustees manage the Allen Water District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local government units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

1. **Basis of Presentation - Fund Accounting**

The accounts of AWD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. The AWD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which AWD uses, is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by AWD is the Enterprise Fund. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting policies consistently applied in preparation of the accompanying financial statements follows:

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

3. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2007 and 2006, and has adopted and passed annual appropriations and resolutions.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

4. **Cash and Investments**

Cash balances are held in a central bank account and also invested in STAR Ohio. For purposes of the statement of cash flows, AWD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. This also would include investments in STAR Ohio.

5. **Accounts Receivable**

Accounts receivable consist of District fees charged to customers and are shown at their net realizable value.

6. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2007 and 2006 are recorded as prepaid items using the consumption method. A current asset of the prepaid amount is recorded at the time of purchase and as an expense in the year in which the services are consumed.

7. **Capital Assets**

Capital assets are stated at cost and are depreciated over the estimated useful lives of the assets from five to fifty years, depending on the type of asset. Equipment is generally depreciated over five to seven years while water lines are generally depreciated over fifty years. Donated assets are reported at their estimated fair value on the date donated. In addition, interest costs incurred during the construction of the water system infrastructure are capitalized and included in capital assets. Once construction is complete and a project is operational, depreciation begins. Prior to 2004, the District recorded the purchase of all assets as capital assets. Since 2004, the District has maintained a capital asset threshold of \$500.

Depreciation is computed using the straight-line method for financial reporting purposes.

8. **Planning Costs - Proposed Projects**

The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated (as Note B7 defines). If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off.

9. **Interest Expense**

Interest expense represents the interest portion of construction loan payments to the Ohio Water Development Authority.

10. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenues for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Income Tax

AWD operates as a public water system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

12. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by AWD or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. AWD applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. AWD had no restricted net assets as of December 31, 2007 and 2006.

13. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported on the basic financial statements and accompanying notes. Actual results may differ from those estimates.

14. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For Allen Water District, these revenues are district fees and contract fee revenue for water services provided. Operating expenses are necessary costs incurred to provide the goods and/or service that are the primary activity of the fund.

NOTE C – CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies can be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE C – CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS - Continued

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the AWD's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the AWD, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer, or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, AWD's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. AWD's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of December 31, 2007 and 2006, the carrying amount of the AWD's deposits were \$1,198,469 and \$1,358,568, respectively. As of December 31, 2007, AWD's bank balance of \$242,082 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. As of December 31, 2006, AWD's bank balance of \$322,307 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. In addition, \$200 was carried in a petty cash fund for both fiscal years.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE C – CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS – Continued

AWD has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2007 and 2006. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2007 and 2006. The District’s investments in Star Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	2007		2006	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$1,125,133	0	\$963,359	0
Total Fair Value	\$1,125,133		\$963,359	

Interest rate risk – In accordance with the investment policy, AWD manages its exposure to declines in fair values by investing exclusively in STAR Ohio.

Credit risk – AWD limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of credit risk – AWD’s investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. AWD has invested 100% in investments in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, AWD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of AWD’s securities are either insured and registered in the name of AWD or at least registered in the name of AWD.

NOTE D – ACCOUNTS RECEIVABLE/SPECIAL ASSESSMENTS RECEIVABLE

The accounts receivable balance of \$39,453 at December 31, 2007 (\$38,304 at December 31, 2006) is current (due 0-30 days). Assessment receivables of \$6,346,652 at December 31, 2007 (\$6,284,863 at December 31, 2006) represent the remaining balance of construction assessments, less prepayments, and principal amounts received from the county auditor.

Once an assessment has been issued for construction costs, and the deadline is final for prepayments, the remaining unpaid balances are certified to the county auditor for semi-annual collection over 25 years through real estate tax billings. Interest is being charged at the same rate as the respective OWDA loan.

NOTE E – DISTRICT AND CONTRACT FEES

AWD customers, as an outside the city user, pay a service charge for water as well as a contract fee, not to exceed 50 percent of the water service charge, for the right and privilege of receiving water services as defined in the contract between AWD and the City of Lima. The City of Lima is responsible for the billing and collection of all fees on behalf of AWD.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE F - COMPENSATED ABSENCES

The District uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. AWD contracted with Roser Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

The District had no significant reductions in insurance coverage from prior years. The District has not had any insurance settlements which exceeded insurance coverage during the past three years.

NOTE H - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ 0	\$ 0	\$ 7,186
Construction in Process	0	482,578	0	482,578
Total Capital Assets, Not Being Depreciated	7,186	482,578	0	489,764
Capital Assets Being Depreciated				
Water Lines	15,283,671	59,415	0	15,343,086
Office Furniture and Equipment	21,614	1,613	0	23,227
Total Capital Assets, Being Depreciated	15,305,285	61,028	0	15,366,313
Less Accumulated Depreciation:				
Water Lines	(2,440,731)	(306,268)	0	(2,746,999)
Office Furniture and Equipment	(20,828)	(655)	0	(21,483)
Total Accumulated Depreciation	(2,461,559)	(306,923)	0	(2,768,482)
Total Capital Assets Being Depreciated, Net	12,843,726	(245,895)	0	12,597,831
Total Capital Assets, Net	<u>\$ 12,850,912</u>	<u>\$ 236,683</u>	<u>\$ 0</u>	<u>\$ 13,087,595</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE H – CAPITAL ASSETS - Continued

Capital assets activity for the year ended December 31, 2007 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ 0	\$ 0	\$ 7,186
Construction in Process	482,578	0	(482,578)	0
Total Capital Assets, Not Being Depreciated	489,764	0	(482,578)	7,186
Capital Assets Being Depreciated				
Water Lines	15,343,086	598,881	0	15,941,967
Office Furniture and Equipment	23,227	0	0	23,227
Total Capital Assets, Being Depreciated	15,366,313	598,881	0	15,965,194
Less Accumulated Depreciation:				
Water Lines	(2,746,999)	(312,850)	0	(3,059,849)
Office Furniture and Equipment	(21,483)	(240)	0	(21,723)
Total Accumulated Depreciation	(2,768,482)	(313,090)	0	(3,081,572)
Total Capital Assets Being Depreciated, Net	12,597,831	285,791	0	12,883,622
Total Capital Assets, Net	<u>\$ 13,087,595</u>	<u>\$285,791</u>	<u>(\$482,578)</u>	<u>\$12,890,808</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE H – CAPITAL ASSETS - Continued

The following is a more detailed schedule of capital assets at December 31:

	<u>2007</u>	<u>2006</u>
Land easement	\$ 7,186	\$ 7,186
Water lines:		
Elm and Copus	349,046	349,046
Shawnee	1,447,304	1,447,304
McDonel	859,112	859,112
Hawthorne	211,545	211,545
State Route 309	261,180	261,180
Allentown	1,759,880	1,759,880
Buckeye Road	317,070	317,070
Shagbark and Snowberry	153,781	153,781
Springbrook	883,148	883,148
East Breese	542,554	542,554
Greely Chapel South	170,267	170,267
Dixie/Blue I & II	782,167	782,167
East Bluelick Extension	99,872	99,872
Hawthorne Extension	58,946	58,946
Lee Ann	41,969	41,969
Woodbriar	635,386	635,386
Metzger	98,363	98,363
Linfield	79,094	79,094
Fetter	216,663	216,663
Stewart	202,941	202,941
Dixie North - King	149,768	149,768
Sweger-Fraunfelter	231,822	231,822
Diller/Eastown/Frank	526,584	526,584
Eastown	185,540	185,540
Colony Park	264,676	264,676
Dixie North #3	80,107	80,107
Zurmehly Road Extension	44,470	44,470
Bath Loop	402,204	402,204
Cotner/Wapak	231,657	231,657
Shawnee Phase II	884,160	884,160
Fort Amanda Loop	180,962	180,962
Cole Street Extension Loop	139,666	139,666
North West Street	129,588	129,588
North Cole Street Extension Loop	29,288	29,288
Bluelick/Thayer (Construction in Process at December 31, 2006)	306,665	293,557
Berryhill (Construction in Process at December 31, 2006)	205,454	189,021
Developer Donated Lines	2,779,068	2,692,306
Total Water Lines	<u>15,941,967</u>	<u>15,825,664</u>
Office furniture and equipment	23,227	23,227
Total Capital Assets	<u>15,972,380</u>	<u>15,856,077</u>
Less accumulated depreciation	(3,081,572)	(2,768,482)
Net Capital Assets	<u>\$ 12,890,808</u>	<u>\$ 13,087,595</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT

Long-term debt obligations and the related transactions for the years ended December 31, 2006 and 2007 are summarized below:

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Note Payable OWDA #1445, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	\$ 244,692	\$ 0	\$ 13,234	\$ 231,458	\$ 14,234
Note Payable OWDA #1446, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	11,758	0	641	11,117	688
Note Payable OWDA #1447, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	1,226,617	0	58,805	1,167,812	63,239
Note Payable OWDA #1448, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	706,123	0	34,518	671,605	37,017
Note Payable OWDA #1449, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	174,397	0	8,542	165,855	9,158
Note Payable OWDA #2139, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	121,573	0	3,221	118,352	3,409

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Note Payable OWDA #2961, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	\$ 118,501	\$ 0	\$ 4,818	\$ 113,683	\$ 5,142
Note Payable OWDA #2975, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	570,445	0	20,935	549,510	22,343
Note Payable OWDA #3017, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	1,266,959	0	56,783	1,210,176	60,672
Note Payable OWDA #3018, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	152,543	0	6,779	145,764	7,202
Note Payable OWDA #3036, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	125,176	0	5,746	119,430	6,120
Note Payable OWDA #3111, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	217,926	0	10,443	207,483	11,059

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Note Payable OWDA #3129, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	\$ 130,660	\$ 0	\$ 4,450	\$ 126,210	\$ 4,715
Note Payable OWDA #3130, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	94,256	0	2,832	91,424	3,010
Note Payable OWDA #3131, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	510,022	0	16,336	493,686	17,261
Note Payable OWDA #3132, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	372,361	0	11,553	360,808	12,193
Note Payable OWDA #3209, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	159,500	0	4,055	155,445	4,308
Note Payable OWDA #3210, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	154,031	0	3,916	150,115	4,160

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Note Payable OWDA #3230, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	\$ 585,313	\$ 0	\$ 14,411	\$ 570,902	\$ 15,349
Note Payable OWDA #3297, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	70,404	0	1,738	68,666	1,850
Note Payable OWDA #3874, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	228,732	0	6,001	222,731	6,262
Note Payable OWDA #3910, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	181,079	0	4,751	176,328	4,957
Note Payable OWDA #4056, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	665,090	0	16,578	648,512	17,275
Note Payable OWDA #4279, payable in 50 semiannual installments of \$3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	129,569	0	31,957	97,612	2,485

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Note Payable OWDA #4566, payable in 50 semiannual installments starting January 1, 2007, including interest at 4.09%, due July, 2031	\$ 0	\$ 373,922	\$ 0	\$ 373,922	\$ 0
Ohio Water & Sewer Rotary See additional documentation below	275,335	0	377	274,958	0
Compensated Absences	<u>307</u>	<u>830</u>	<u>307</u>	<u>830</u>	<u>830</u>
Totals	<u>\$ 8,493,369</u>	<u>\$ 374,752</u>	<u>\$ 343,727</u>	<u>\$ 8,524,394</u>	<u>\$ 334,938</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Note Payable OWDA #1445, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	\$ 231,458	\$ 0	\$ 14,234	\$ 217,224	\$ 15,311
Note Payable OWDA #1446, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	11,117	0	687	10,430	739
Note Payable OWDA #1447, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	1,167,812	0	63,238	1,104,574	68,007
Note Payable OWDA #1448, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	671,605	0	37,017	634,588	39,697
Note Payable OWDA #1449, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	165,855	0	9,158	156,697	9,818

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Note Payable OWDA #2139, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	\$ 118,352	\$ 0	\$ 3,409	\$ 114,943	\$ 3,609
Note Payable OWDA #2961, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	113,683	0	5,142	108,541	5,488
Note Payable OWDA #2975, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	549,510	0	22,343	527,167	23,844
Note Payable OWDA #3017, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	1,210,176	0	60,671	1,149,505	64,828
Note Payable OWDA #3018, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	145,764	0	7,202	138,562	7,651
Note Payable OWDA #3036, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	119,430	0	6,121	113,309	6,519

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Note Payable OWDA #3111, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	\$ 207,483	\$ 0	\$ 11,059	\$ 196,424	\$ 11,712
Note Payable OWDA #3129, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	126,210	0	4,715	121,495	4,995
Note Payable OWDA #3130, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	91,424	0	3,009	88,415	3,200
Note Payable OWDA #3131, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	493,686	0	17,261	476,425	18,238
Note Payable OWDA #3132, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	360,808	0	12,193	348,615	12,868
Note Payable OWDA #3209, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	155,445	0	4,308	151,137	4,576

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Note Payable OWDA #3210, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	\$ 150,115	\$ 0	\$ 4,160	\$ 145,955	\$ 4,419
Note Payable OWDA #3230, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	570,902	0	15,349	555,553	16,349
Note Payable OWDA #3297, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	68,666	0	1,850	66,816	1,970
Note Payable OWDA #3874, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	222,731	0	6,262	216,469	6,532
Note Payable OWDA #3910, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	176,328	0	4,957	171,371	5,172
Note Payable OWDA #4056, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	648,512	0	17,275	631,237	18,001

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Note Payable OWDA #4279, payable in 50 semiannual installments of \$3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	\$ 97,612	\$ 0	\$ 2,485	\$ 95,127	\$ 2,585
Note Payable OWDA #4566, payable in 50 semiannual installments starting January 1, 2007, including interest at 4.09%, due July, 2031	373,922	140,238	12,129	502,031	12,630
Ohio Water & Sewer Rotary See additional documentation below	274,958	0	0	274,958	0
Compensated Absences	830	489	830	489	489
Totals	<u>\$ 8,524,394</u>	<u>\$ 140,727</u>	<u>\$ 347,064</u>	<u>\$ 8,318,057</u>	<u>\$ 369,247</u>

Ohio Water and Sewer Rotary Commission - AWD has obtained six loans from the Ohio Water and Sewer Rotary Commission for the construction of water lines. These loans provide funding assistance for that portion of the project for which collections of assessments from certain owners of underdeveloped property located within an agricultural district are exempted pursuant to Section 929.03 of the Ohio Revised Code, subject to the performance of certain terms and conditions of repayment.

As part of the agreement, whenever the use of the agricultural land changes, the full amount of the assessment is to be charged for the portion of the property that was exempted under Section 929.03 of the Ohio Revised Code, and repayment is required to be made to the Ohio Water and Sewer Rotary Commission. No amortization schedule is shown for these loans as there is no set repayment schedule.

If the loan is not repaid within one year of the land use change, the interest rate will be the 20-bond index rate, as quoted in the latest edition of "The Bond Buyer" minus 4% per annum or 5% per annum, whichever is greater.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE I – CURRENT AND LONG-TERM DEBT - Continued

Future principal and interest payments on all O.W.D.A. loans are as follows:

Year Ending December 30,	OWDA Loans		
	Principal	Interest	Total
2008	368,757	496,865	865,622
2009	392,781	472,841	865,622
2010	418,409	573,212	991,621
2011	445,752	419,870	865,622
2012	474,926	386,411	861,337
2013-2017	2,885,567	1,436,355	4,321,922
2018-2022	1,918,521	543,276	2,461,797
2023-2027	888,258	154,568	1,042,826
2028-2032	249,639	17,923	267,562
Total	<u>\$ 8,042,610</u>	<u>\$ 4,501,321</u>	<u>\$ 12,543,931</u>

Inter-project Loans - During 1997, AWD utilized excess prepaid assessment and tap fee monies collected for completed projects to fund planning and construction costs of newer projects. These project loans are the responsibility of AWD. The total costs for these funded newer projects, including calculated interest, are assessed to the consumers of each respective project. As assessment monies, tap fees for unassessed properties, and district fee revenues are received from these newer projects, it is AWD's intent that the respective debt will be repaid to the projects from which the money was borrowed.

NOTE J – DEFINED BENEFIT RETIREMENT PLAN

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings.
 - 3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE J – DEFINED BENEFIT RETIREMENT PLAN - Continued

- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007 and 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The member contribution rates were 9.5% and 9.0% for 2007 and 2006, respectively, for members in state and local classifications.

The employer contribution rates for local government employer units were 13.85% and 13.7% of covered payroll for 2007 and 2006, respectively.

The District's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were \$6,506, \$6,050, and \$5,265, respectively, which were the required contributions.

NOTE K – POST-EMPLOYMENT BENEFITS

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.85% and 13.70% of covered payroll for fiscal years 2007 and 2006, respectively; 5.0% was used to fund health care from January 1 through June 30, 2007 and 6.0% was used from July 1 through December 31, 2007. 4.5% was used for the year 2006.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.
- C. Summary of Assumptions:

Actuarial Review – The assumptions and calculations below were based on OPERS' latest actuarial review, performed as of December 31, 2006.

Funding Method – The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE K – POST-EMPLOYMENT BENEFITS - Continued

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually; not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2006 (the latest available) was 6.5%.

Active Employee Total Payroll – An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 5% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 374,979 for 2007 and 369,214 for 2006. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.
2. The employer contributions that were used to fund postemployment benefits were \$2,583 for 2007 and \$1,766 for 2006.
3. The amount of \$12.0 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.
4. The Actuarial Valuation as of December 31, 2006, reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$30.7 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board Implements its Health Care Preservation Plan:

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE L – CONTINGENT LIABILITIES

AWD's general legal counsel is Albers and Albers, Attorneys at Law, Columbus, Ohio.

Pending or Threatened Litigation – During the period ended December 31, 2007 and December 31, 2006, the Allen Water District had no pending contingent liability of which management is aware.

Contractually Assumed Obligations – To Counsel's knowledge, AWD has assumed contractual obligations only with regard to the financing of its planning and construction activities for the construction of water systems. No claim against these contractual obligations has been made or is anticipated that would result in an unfavorable outcome to the Allen Water District.

Claims and Assessments – To Counsel's knowledge, there are no unasserted claims and/or assessments which, if asserted, would have a reasonable possibility of an unfavorable outcome with a material effect upon the financial condition of Allen Water District.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 30, 2008

Board of Trustees
Allen Water District
2500 Shawnee Rd., St. C
Lima, Ohio 45806

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Allen Water District as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Allen Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allen Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

Financial Statement Preparation

The Allen Water District, due to its size and available resources, does not currently have management or an employee who possesses the necessary skills and knowledge to apply generally accepted accounting principles in preparing its financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is a material weakness. In addition, we noted certain other matters that we have reported to management of the Allen Water District in a separate letter dated June 30, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allen Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Allen Water District Board of Trustees, management, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

ALLEN WATER DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 4, 2008**